

**THE FISCAL YEAR 2003
COMPREHENSIVE ANNUAL FINANCIAL REPORT
OF THE DISTRICT OF COLUMBIA**

Friday, January 30, 2004



**Remarks of
Natwar M. Gandhi
Chief Financial Officer
Government of the District of Columbia**

It is my pleasure to be here today to present you with the District of Columbia's Fiscal Year 2003 Comprehensive Annual Financial Report (CAFR). This is our seventh consecutive balanced budget with a clean audit opinion. Once again, this report is submitted on a timely basis, with an unqualified, "clean" opinion from the city's independent auditors, and reflects a balanced budget with a surplus.

Budget Surplus

For the fiscal year ended September 30, 2003, the District is reflecting a surplus in general funds (excluding federal and private sources) of \$32 million. This means that from its local source revenues, District expenditures came within 0.7 percent of exactly matching revenue.

I believe this outcome demonstrates that the financial assessments and forecasts our office made were generally on target. It also demonstrates the great seriousness of purpose exhibited by the Mayor and the Council in taking appropriate action to assure the District finished the year on-budget.

On the expenditure side, I am happy to report that no District agency was anti-deficient in FY 2003.

The Fund Balance

The Fund Balance in the CAFR is the net difference between the District's assets and liabilities as of the end of the fiscal year. At the General Fund level, the FY 2003 Fund Balance is \$ 897.4 million. It is large; however, we cannot look to the Fund Balance as an easy way to solve our financial problems. Of the General

Fund Balance, \$813.2 million, or 91 percent, is reserved for specific uses, principally \$213.2 million for debt service and \$253.8 million in congressionally mandated cash reserves. This cash reserve requirement, which totals seven percent of the operating budget, is among the highest for government jurisdictions nationwide. This leaves \$84.2 million, or nine percent, unreserved and undesignated.

In general, there is little advantage to having an ever-growing Fund Balance, which is why the District requested and Congress approved in the FY 2004 appropriations bill limited access to the Fund Balance with prior congressional approval. In other jurisdictions, unrestricted cash is used in various ways in following years to pay down debt, rebate taxes, or meet necessary, one-time expenditures.

Cash Perspective

A key point to keep in mind as you study this CAFR is that it presents an accounting picture of our assets and liabilities as of the end of the year. In many respects, our position looks very positive, and, compared to many other jurisdictions, it is very good indeed. However, both financial managers and policy makers need to keep in mind that we run on a day-to-day basis in paying our bills – approximately \$500 million in cash outflows a month – and, in this regard, cash is king. There are seven requirements that we have to fulfill at all times to prevent the return of the control board. All seven relate to the District being unable to meet its cash obligations.

While I foresee no immediate problem with our cash situation at this time, we need to monitor this area carefully and be very circumspect in taking any action that

would reduce the flow of funds or radically alter the pattern by which funds are received.

Final Thoughts

With the issuance of this CAFR, the District has confirmed that the process is now routine, with no concerns over its timeliness or securing a clean opinion. The issuance of this CAFR also confirms that the financial infrastructure is rebuilt and functioning well in support of the District's leaders as they make timely decisions. Their dedication to balanced budgets and fiscal responsibility is a national model, and the District is getting recognition for it in the form of a bond rating upgrade to an A- and a positive outlook from the bond rating agencies. This is the first time in ten years that the District has had such a rating, and we will do everything in our power to protect and further enhance these gains.

But even though we were able to close FY 2003 successfully, and the outlook for 2004 seems steady, I foresee fiscal challenges ahead as the District works to close spending pressures and finds remedies to its inherent structural imbalance. The May 2003 General Accounting Office (GAO) report on the structural imbalance, which confirmed an imbalance of between \$470 million and \$1.143 billion, makes it clear that we must guard our tax base closely.

The District's structural imbalance includes a prohibition on taxing federal real property, which comprises 42 percent of the District's property value, and other non-municipal tax-exempt property, such as universities, which comprise an additional 11 percent. Further constraining the District's tax base are restrictions on taxing income at source, which means that the District can tax just 34 percent of the income earned within its borders. The District also provides state-like

functions such as human services, mental health, and higher education estimated at \$500 million annually.

Thank You/Congratulations

Now, I want to take this opportunity to thank the many employees, from financial and program areas, who have worked so long and so hard to ensure both the successful closure of the District's books and the maintenance of the high-quality records required for an unqualified audit opinion. In particular, I want to commend Tony Pompa, deputy chief financial officer for the Office of Financial Operations and Systems, and his staff for their hard work and dedication. I would also like to recognize and thank the rest of my senior management team and their staff: Bert Molina, Dr. Julia Friedman, Anthony Calhoun, Phil Brand, Barbara Jumper, Henry Mosley, Deloras Shepherd, Pamela Graham, Steward Beckham, and John Musso. The District owes them its thanks.

I also want to thank the accounting firm of KPMG, whose highly professional staff worked equally long and hard during the past few months to successfully complete this audit. In particular, I want to commend Karyn Molnar and Jack Reagan for their efforts.

Let me also extend my deepest thanks to the Mayor, Mrs. Cropp, Mr. Evans, the Council, and the Inspector General for their guidance, support, and oversight of the process over the past few months. Their leadership and commitment to fiscal prudence was an essential part of this successful CAFR.

This concludes my remarks. I would be pleased to answer any questions you may have.